PROVISIONAL TAX BILLING

Things to Think About for pay-2009

Department of Local Government Finance

Introduction

- Review of Past Provisional Tax Bill Practice
- Difficulty in Calculating Provisionals in 2009
- Alternative Solutions to Provisionals in 2009

In Past Years...

- Timely submission of certified AV resulted in a budget order by February 15 and billing due dates of May 10 and November 10.

- Late submission of certified AV and a late budget order resulted in a late due date *or* a provisional tax bill.

- The provisional tax bill generated revenue until final AVs were complete.

  - The amount due on a provisional bill was close to the amount due on the actual bill.

  - Provisional bills were based on the prior year tax liability.

In 2008...

- HEA 1001-2008
  - Increased the appropriation for homestead credits for pay 2008.
    - "Scaling factors" were calculated for provisional purposes to allow calculations based on pay 2007 tax bills for pay 2008.
  - Tax relief for pay 2009 fundamentally alters the tax billing calculations.
    - Cannot calculate factors to adjust pay 2008 for provisional billing for pay 2009.
- Pay 2008 tax bills are ***not*** a good proxy for pay 2009.

In 2009…

- Scaling factors <u>cannot</u> be calculated allowing pay 2008 tax bills to serve as a good proxy for pay 2009 tax bills.
    - Either the Provisional or the Reconciliation bill will be unexpectedly large or small
- Fundamental change to property tax system includes:
    - Removal of levies (e.g., county welfare, school tuition support)
    - Supplemental homestead standard deduction
    - Tax Caps enacted for all property (e.g., 1.5%, 2.5%, 3.5%)

So What?

Taxpayer Confusion!

- If the provisional tax bill is too high and the amount paid on the provisional tax bill exceeds the actual property tax liability, a refund to the taxpayer may result at reconciliation.
  - Refunds are costly and difficult for counties to process.
  - Large provisional tax bill forces taxpayers to effectively loan money to local government.

Insufficient Revenue!

- If the provisional tax bill is too low and the actual property tax liability exceeds the amount paid on provisional bill, the difference is owed by the taxpayer at reconciliation.
  - Taxpayer will receive tax bill asking for even *more* money to make up the difference.
  - Local units of government still forced to borrow to fund services to taxpayers.

So you want to proceed with a Provisional Bill for 2009 anyway…

- Using parcel-level County Auditor data:
  - Alter the homestead standard deduction to reflect the increase from 50% to 60% of gross AV ($45,000 limit applies).
  - Calculate the supplemental homestead deduction for each parcel (equal to 35% of AV net of the standard deduction, 25% after $600,000)
- Calculate estimated Net AV and its aggregate at taxing district level
- Calculate estimated tax rates at the fund level
  - Remove the tax rates for the costs the state is picking up (e.g. family and children).
- DLGF calculates scaling factors for provisional bills with assistance from county.

So you want to proceed with a Provisional Bill for 2009 anyway ...continued

- Recalculate PTRC and Homestead Credit rates to reflect changes
  - State PTRC rate goes to zero (0)
  - Homestead credit rate is reduced
- Recalculate tax bills using:
  - Revised NAV
  - Revised tax rates
  - Revised PTRC and Homestead Credit rates
- If any changes have been made to locally-funded credits, including adoption of new LOITs for tax relief or levy freeze, local credits will need to be factored in.
- Summarize change in tax bill at taxing district level to arrive at scaling factor.

Evaluating the Quality of the Pay2009 Scaling Factor

- The scaling factor's effectiveness at altering pay-2008 taxes to serve as a good proxy for pay-2009 depends upon:
  - quality of the parcel-level data; and
  - ability to properly carry out the calculations described.
- Given the complexity involved, it is not likely that a pay-2009 scaling factor will be as effective as the pay-2008 factors.

Wait, there's more!

- The scaling factor is a *Pre-Circuit Breaker* calculation
  - Property tax caps affect each parcel differently
  - There is no way to calculate a district-level, uniform calculation to mimic the caps
- Provisional bills will first apply the scaling factor then calculate a circuit breaker credit based on pay-2008 gross AV.
- This additional programming will increase...
  - The expense charged by vendors
  - The time required to calculate and print provisional bills

What does all this mean?

- Counties committed to provisional billing should plan ahead

  - It will take up to sixty (60) days to calculate scaling factors for a single county.

  - It could take longer if many counties are requesting at the same time.

  - Vendors need advance notice to update systems and input the scaling factors.

- **County Auditors, Assessors, and their vendors will be asked to assist DLGF in the calculation of the scaling factors.**

Alternate Solutions: Back on Schedule

- Address the problem of delayed billing and cash flow.
  - Teamwork at the county level among assessor, auditor, and treasurer.
  - Coordinate staffs, share resources, map out attack plan to complete job in order to send out regular tax bills.
- Brainstorm other possible solutions:
  - Support change in trending rule to use one (1) year of sales as opposed to mandatory two (2) years?
  - Streamline budget approval law (e.g., remove TAB chart publication requirement?)

In Summary…

- Provisional billing poses **significant** challenges for pay 2009
  - Transition year between two fundamentally different tax structures
- The DLGF offers help:
  - Data compliance training
  - Identification of inefficient internal processes
  - Take suggestions regarding changing rules and laws to make system more efficient and simpler
- DLGF will calculate custom scaling factors and assist with cap calculations <u>*if*</u> local officials determine that a provisional bill is absolutely, positively necessary.

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